

13. INTERNATIONAL AFFAIRS

Table 13-1. FEDERAL RESOURCES IN SUPPORT OF INTERNATIONAL AFFAIRS
(In millions of dollars)

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|---|-------------|----------|--------|--------|--------|--------|--------|
| (In millions of dollars) | | | | | | | |
| Function 150 | 1996 Actual | Estimate | | | | | |
| | | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
| Spending: | | | | | | | |
| Discretionary Budget Authority | 18,122 | 18,109 | 22,974 | 20,079 | 19,095 | 18,811 | 18,762 |
| Mandatory Outlays: | | | | | | | |
| Existing law | -4,840 | -4,744 | -4,433 | -3,963 | -3,839 | -3,655 | -3,487 |
| Proposed legislation | | | 37 | | | | |
| Credit Activity: | | | | | | | |
| Direct loan disbursements | 1,674 | 2,150 | 1,900 | 2,191 | 2,162 | 2,013 | 2,023 |
| Guaranteed loans | 8,418 | 12,692 | 12,059 | 13,093 | 13,736 | 13,702 | 14,000 |
| Tax Expenditures: | | | | | | | |
| Existing law | 6,520 | 6,980 | 7,565 | 8,165 | 8,790 | 9,445 | 10,125 |
| Proposed legislation | | 10 | -820 | -1,408 | -1,484 | -1,674 | -1,773 |

The International Affairs function, for which the Administration proposes \$23 billion for 1998, encompasses a wide range of activities that advance American interests through diplomacy, foreign assistance, support for American exports, and the activities of international organizations. Certain tax provisions also support American business. The conduct of foreign relations is inherently a governmental function, which explains the need for sustained Government activity and budgetary support.

Diplomacy

The State Department and its overseas operations are at the heart of international affairs activities and programs, and they consume \$2.7 billion, or 14 percent, of the resources. These funds finance the salaries and related operating expenses of the Foreign Service and other Department personnel, and the costs of overseas facilities. The Department carries out foreign policy planning and oversight in Washington, conducts diplomacy, and represents the United States at over 250 overseas embassies and other posts. Overseas posts also provide administrative support to about 25 other Federal departments and agencies.

The major achievement of American diplomacy over the past half century was creating and sustaining the alliances, notably NATO, that successfully countered the Soviet bloc's threat to world security. More recently, diplomatic objectives include establishing viable democracies in formerly totalitarian countries such as in Eastern Europe and the former Soviet Union, curbing regional instability in areas of importance to U.S. security such as Bosnia, promoting the American economy through trade negotiations and the support of U.S. businesses, and addressing transnational issues such as the environment through multilateral and bilateral negotiations. American diplomacy also has been critical over the past 20 years in promoting peace and reconciliation in the Middle East. Finally, the Department has the continuing responsibility to protect and assist U.S. citizens abroad.

Foreign Assistance

The largest single part of international affairs spending—\$13.7 billion, or 74 percent of the total—goes for a wide variety of overseas assistance programs traditionally cat-

egorized as security assistance, development aid, and humanitarian assistance.

Security Assistance: International Security Assistance comes mainly through the Foreign Military Financing program (FMF, which the State Department oversees and the Defense Security Assistance Agency manages) and the Economic Support Fund (ESF, which State oversees and the U.S. Agency for International Development manages). Over the past 50 years, security aid helped support the military establishments of friendly countries, mainly around the perimeter of the Soviet Union, and helped ease the economic strain of their defense forces. On the whole, these countries played a critical role in containing the Soviet Union.

The FMF program finances the transfer of military goods and services to eligible countries, using grant funds and a small loan program. The ESF program provides only grant funding. Currently, these two programs devote an overwhelming share of their resources to supporting the Middle East peace process. For a number of years, over \$5 billion a year has gone for this purpose. This funding demonstrates strong U.S. support for the actions that regional leaders are taking to advance the peace process. Most of the remaining funds support the transition of Eastern European countries to NATO membership, the establishment of democracy in countries such as Angola, Cambodia and Haiti, and the training of foreign military personnel, primarily from developing countries.

Development Assistance: Development assistance is carried out through a range of programs:

- The Treasury Department manages contributions to multilateral development banks. A major portion of them support the World Bank group of institutions, which make development loans both at near-market rates and on highly-concessional terms, and which provide financing and investment insurance for private sector activity in the developing world. Contributions also go to four regional development banks for Africa, Asia, Europe (lending to Eastern Europe and the New Independent States of the former

Soviet Union), and Latin America. All but the European bank have concessional loan programs. Two special programs also receive U.S. contributions: the Global Environment Facility, which supports environmental activities related to development projects; and the North American Development Bank, which was established in conjunction with the North American Free Trade Agreement and which supports environmental projects along the U.S.-Mexican border.

- The bilateral development assistance programs of the U.S. Agency for International Development (USAID) target five sectors: broad-based economic growth, population (for which the United States is the leading donor worldwide), health, the environment, and democracy building. In recent years, USAID has significantly restructured its program to focus on countries most likely to adopt economic reforms, in order to encourage free markets along with improvements in democratic governance. USAID has developed performance measures to help it allocate resources, and has made major internal management reforms to improve its effectiveness and cut costs.
- State, USAID, and other agencies (the U.S. Information Agency, Export-Import Bank, Peace Corps, and Overseas Private Investment Corporation) also carry out grant and lending programs similar to development assistance to support the transition to free market democracy in Central Europe and the New Independent States.

Encouraging economic development has proven a difficult task, requiring far more time for success than policy makers assumed in the early 1960s when they initiated many of the current programs. Nevertheless, a number of developing countries have shifted from grants and highly concessional loans to near-market rate loans, and a few countries have graduated from the ranks of foreign assistance recipients. Some early recipients of U.S. bilateral assistance in East Asia are now among the world's most dynamic economies, and the major Latin American countries no longer require large-scale grant aid.

Humanitarian Assistance: Humanitarian assistance programs also encompass various activities:

- USAID manages two food aid programs under Public Law 480, first enacted in 1954. The agency makes humanitarian food donations, under Title II of the law, through U.S. voluntary agencies and the United Nations World Food Program, and directly to foreign governments. Depending on the circumstances each year, about half of this program goes to disaster relief—with recent large donations in such areas as central Africa and Bosnia—and half to longer-term development projects. Under Title III, USAID provides food to governments that sell it, then use the proceeds to carry out agricultural reforms.
- State and USAID also manage funds for refugee support and disaster assistance. State manages humanitarian refugee relief funding—mainly grants to international agencies such as the United Nations High Commissioner for Refugees and the International Committee of the Red Cross. USAID manages the Office of Foreign Disaster Assistance, which provides grants to deal with natural and human disasters overseas. In a crisis, these two programs and Title II of Public Law 480 are closely coordinated.

The United States continues to lead the world in responding to humanitarian crises, due to Americans' support for such assistance and U.S. voluntary agencies' unequalled capacity to implement relief programs quickly and effectively. This humane concern and excellent program delivery has, over the years, countered world food shortages, alleviated the impact of major droughts in particular countries, managed surges of refugees, and dealt with man-made disasters such as genocide in Rwanda.

Export Promotion

While U.S. diplomacy and foreign assistance promote open markets and export opportunities for U.S. business, three other international affairs agencies more directly support or finance American exports. The Export-Import Bank provides short- and long-term loans and loan guarantees and insurance to support

U.S. exports, primarily exports of capital goods. Bank support is designed to remedy imperfections in private capital markets, and to counter financing by the official export credit agencies of other countries. The Overseas Private Investment Corporation provides loans, guarantees, and insurance for U.S. business investment overseas. The Trade and Development Agency provides grant financing for feasibility studies on major infrastructure and other development projects abroad. These agencies' activities generate considerable pay-offs for U.S. exports.

A series of tax preferences also benefit U.S. trade activities. Americans working abroad, for example, often may exclude \$70,000 of income and a portion of their housing costs from taxes. In addition, U.S. exporters who work through Foreign Sales Corporations may exempt significant portions of their income from U.S. taxes. U.S. exporters also may allocate more of their earnings abroad (and thereby reduce their tax obligations). Finally, earnings from U.S.-controlled foreign corporations benefit from a tax deferral—they are not subject to U.S. taxes until they are received by U.S. shareholders as dividends or other distributions.

International Organizations

The United States promotes its foreign policy goals through a wide variety of international organizations, to which it makes both assessed and voluntary contributions. While our global leadership is most clear in the United Nations, other organizations are important to U.S. interests.

The International Atomic Energy Agency, for example, strongly supports America's non-proliferation goals, while the World Health Organization pursues our goal of eradicating disease. NATO advances our national security goals in Europe. We support our development assistance goals as a leading contributor to the United Nations Development Program. Finally, our assessed contributions to U.N.-supported peacekeeping operations, and our voluntary contributions to such peacekeeping efforts as the Multilateral Force in the Sinai, support peace-keeping in regions that are important to our interests.